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News Release

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For Immediate Release:
Monday, December 8, 2003
10:00 a.m.

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BHI forecasts modest tax revenue increase for FY 2004

Growth in personal income and economic activity drive revenues higher; need for caution remains, however.

BOSTON – The Beacon Hill Institute predicts a 3.8% increase in state tax collections for Fiscal Year 2004 and a 4.0 % increase in FY 05. This means that the Commonwealth can expect to collect \$15.53 billion in taxes in FY 04 and \$16.15 billion in FY 05.

Modest growth in personal and corporate income fueled by growing demand for high-tech goods will drive the increase. Manufacturing in the Bay State will also be helped by the decline of the dollar, as exports become more attractive internationally.

Massachusetts has fared badly, in comparison with the rest of the nation, throughout the recent economic downturn and recovery. Massachusetts slipped into a recession in December 2000 and emerged definitively only when the decline in gross state product ended in the second quarter of 2003. Growth in the Bay State will continue to lag the rest of the nation over the next 12 months.

BHI assumes there will be no significant change in Massachusetts tax policy for the forecast period, which runs through the end of fiscal year 2005. In making its forecast, the institute examined 11 tax schedules on a monthly basis through June 2005. These included personal income, sales, corporate and excise taxes.

“Massachusetts can expect revenue growth thanks in part to the upswing in the national economy,” David G. Tuerck, Executive Director of the Beacon Hill Institute and Chairman of the economics department at Suffolk University, told the Joint Committee on Ways and Means today. “But there’s also a need to be cautious. Increases in the cost of hiring labor will slow growth in tax revenue, as firms will be paying more in unemployment insurance taxes.”

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Tuerck pointed out other reasons for caution. First, the two largest sources of tax revenue did not grow very quickly over the first five months of the current fiscal year; income tax withholdings rose by 3.4%, and sales and use taxes by just 1.0%. Second, part of the increase in revenue was due to tax increases. When these are stripped out, total revenue ran at only 4.3% above the baseline level. Taken together this evidence suggest that the economic recovery in Massachusetts remains hesitant; if it is delayed even by a month or two, revenues might rise by as little as 3.5% in FY 05, However, the increase could be as high as 5%. (See Table 1 below.)

“The state can now look forward to a brightening fiscal picture.” said Tuerck. “However, the need for caution remains. The goal of reducing the cost of government while maintaining a competitive tax structure remains as important as ever,” he said.

Table 1					
Revenue Forecasts for Massachusetts, FY2004 and FY2005					
	Actual FY 2001	Actual FY 2002	Actual FY 2003	Forecast FY 2004	Forecast FY 2005
BHI forecast, MA taxes, FY					
Personal income tax (\$ million)	9,903	7,913	8,026	8,452	8,828
% change p.a.	9.5	-20.1	1.4	5.3	4.5
Sales Tax	3,756	3,696	3,708	3,814	3,986
% change p.a.	5.3	-1.6	0.3	2.8	4.5
Corporation Excise	945	587	799	903	931
% change p.a.	-16.4	-37.9	36.3	13.0	3.1
Business Excises	589	573	730	672	668
% change p.a.	22.2	-2.7	27.3	-8.0	-0.5
Motor Fuels	660	667	676	689	701
% change p.a.	1.1	1.0	1.5	1.8	1.8
Total Taxes	16,729	14,287	14,964	15,532	16,149
% change p.a.	6.6	-14.6	4.7	3.8	4.0
Total taxes for budget	15,689	16,075	14,279	14,824	15,410
% change p.a.	2.5	-15.1	4.6	3.8	4.0
Total taxes, low forecast				15,383	16,075
% change p.a.				2.8	3.5
Total taxes, high forecast				15,637	16,308
% change p.a.				4.5	5.0
Notes: ¹ From New England Economic Project, <i>Economic Outlook 2003-2007</i> , October 2003.					

The entire BHI forecast can be found on BHI's web site, www.beaconhill.org.